

Comparative Analysis of Financial Performance and Profitability of Growing Development Banks in India

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ABSTRACT

The financial performance and profitability of any Development Financial Institutions is very important for growth of economy of any country and Indian sub-continent is not an exception. Overall profitability of major development banks have improved in recent past and many factors have been responsible for creating an upswing in the profitability of these financial enterprises. In the present research paper five important development banks have been selected by the process of judgment sampling viz. IFCI Limited, ICICI Bank, IDBI Bank, HDFC Bank and Axis Bank or erstwhile UTI Bank and the emphasis is given on the analysis of profitability issues and factors contributing to it.

Keywords: Development Financial Institutions, IFCI Limited, ICICI Bank, IDBI Bank, HDFC Bank and Axis Bank.

INTRODUCTION

Financial soundness and profitability of any business enterprise is very important for its long term sustenance and survival. Profitability of any banking and financial institutions is very important for long term survival and for developing competitive advantage with its competitive rivals in the marketing scenario. The profitability depends on many parameters such as cost control, revenue generation, overall expansion poten-

tial, prudent investment policy, risk measurement and mitigation and many other parameters. The present research paper throws light on profitability of selected Development Financial Institutions and reasons attributed to their overall growth. Growth of any organization comes from sumptuous profitability. Therefore, all those parameters which have been responsible for recurring profits in the selected samples have been studied in details.

Objective of the present Research Paper

The present paper fulfills following major objective.

The paper throws light on overall net profits and other indices responsible for profitability and it focuses light on the strategic initiatives taken up by the Development Financial Institutions to achieve impressive growth figures and mammoth growth potential.

REVIEW OF THE LITERATURE

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RESEARCH METHODOLOGY

In the present research paper secondary data has been collected from the annual reports for a period from 2001-02 to 2012-13 for the important development banks such as IFCI Limited, ICICI Bank, IDBI Bank, HDFC Bank and Axis Bank or erstwhile UTI Bank. The above development financial institutions have been selected by the process of judgment sampling because of their impressive growth figures.

Significance of the present Research Study

The present research paper shall be highly important to policy makers and planners, eminent research scholars, management professionals of the development banks, government, Reserve Bank of India and many other stakeholder of the selected commercial development financial institutions.

Limitations

The research suffers with some of the limitations such as:

- A. Only hypothesis of statement has been seen and considered through analysis of net profit, profit before tax, EPS, dividend per share, earning retention etc.
- B. Since a long time horizon has been covered i.e. from 2001-02 to 2012-13 the research was time consuming, and cumbersome exercise.

Table No. 1 :
Position of Net Profit for Different Development Banks for Different Time Horizons

₹ (Rs. in Crores)

Years	IFCI Limited	ICICI Bank	IDBI Bank	HDFC Bank	Axis Bank
2001-02	(—)884.70	258.29	424.30	297.04	134.14
2002-03	(—)259.69	1206.17	401.40	387.60	192.18
2003-04	(—)322.97	1637.10	465.00	509.50	278.31
2004-05	(—)443.40	1810.00	307.25	665.56	326.17
2005-06	(—)266.21	2540.00	560.88	870.78	468.78
2006-07	873.71	3110.00	630.30	1141.45	661.94
2007-08	1020.57	4158.00	729.45	1590.18	1086.27
2008-09	657.19	3758.00	858.53	2244.93	1823.56
2009-10	670.94	4025.00	1031.13	2948.70	2518.40
2010-11	706.25	5151.37	1650.31	3926.40	3388.49
2011-12	663.62	6465.25	2031.61	5167.09	4242.20
2012-13	450.87	8325.47	1882.08	6726.28	5179.43

Source: Compiled from data obtained from Annual Reports of selected Development Banks for different years

In the Table No. 1 Net Profit of the selected financial institutions has been shown on comparative basis from 2001-02 to 2012-13 and it can be seen that ICICI Bank has highest net profits and IFCI Limited has lowest net profit during present times. But all the Development Banks have huge profitability which shows that major financial institutions have devised

meticulous steps to render to continuous profitability. Better Net profits have been possible because of better cost management perspectives but a lot can be improved if establishment expenses are controlled, Interest expenses can also be controlled for better interest spread, Credit can be given to credit worthy clients for better results and age, sex, marital status, and length of

service, salary, bonus, increment, stability in piling Nonperforming assets and this will
 service, capacity, condition, wealth of loan improve profitability to better levels.
 seeker should be evaluated to reduce ever

Table No. 2:
Position of Profit Before Tax for Selected Development Banks

₹ (Rupees in Crores)

Years	IFCI Limited	ICICI Bank	IDBI Bank	HDFC Bank	Axis Bank
2001-02	(—)884.70	289.79	414.90	425.38	213.36
2002-03	(—)259.69	780.38	455.61	570.85	301.29
2003-04	(—)267.78	1902.22	461.50	718.96	429.61
2004-05	(—)625.05	2778.40	288.47	978.94	568.66
2005-06	(—)265.93	3098.80	588.34	1253.57	865.05
2006-07	1237.34	3648.00	682.62	1638.75	1102.46
2007-08	1668.59	5056.00	822.70	2280.63	1890.54
2008-09	1010.23	5117.00	985.63	3299.24	2893.07
2009-10	1115.26	5345.00	1044.71	4289.14	3909.62
2010-11	1166.25	6760.70	2280.98	5818.65	5135.65
2011-12	957.74	8803.42	2629.69	7513.16	6287.83
2012-13	664.12	11396.68	2621.77	9750.62	7552.69

Source: Compiled from data obtained from Annual Reports of selected Development Banks for different years.

Table No. 3:
Comparison of Reserves and Surplus of Selected Development Banks

₹ in Crores

Year	IFCI Ltd	ICICI Bank	IDBI Bank	HDFC Bank	Axis Bank
2001-02	497.66	5635.54	6042.30	1660.91	422.95
2002-03	469.70	6320.65	6978.09	1962.78	687.92
2003-04	454.94	7394.15	5182.06	2407.09	984.84
2004-05	447.42	11813.19	5204.49	4209.97	2134.38
2005-06	442.98	21316.15	5647.38	4968.39	2593.49
2006-07	873.84	23413.92	7575.10	6113.76	3111.59
2007-08	2134.55	45357.53	8095.50	11142.80	8410.79
2008-09	2632.47	48419.72	8697.35	14220.94	9854.58
2009-10	3608.12	50503.47	9438.39	21061.83	15639.27
2010-11	4001.72	53938.82	13582.02	24911.12	18588.27
2011-12	4534.09	59250.08	18148.68	29455.03	22395.33
2012-13	4757.31	65547.83	19902.50	35738.26	32639.90

Source: Compiled from Annual Reports of Different Development Banks for different years

Table – 4
Comparative Position of Earning Per Share in Selected Development Banks

(₹) Rupees Per Share

Year	IFCI Limited	ICICI Bank	IDBI Bank	HDFC Bank	Axis Bank
2001-02	— 14.57	11.61	3.74	11.01	9.34
2002-03	—4.78	19.68	5.08	13.75	10.00
2003-04	—51.28	26.66	7.30	17.95	12.06
2004-05	— 5.79	27.55	4.26	22.92	14.32
2005-06	—1.30	32.49	7.76	27.92	17.45
2006-07	13.93	34.84	8.70	36.29	23.50
2007-08	15.22	39.39	10.06	46.22	32.15
2008-09	8.55	33.76	11.85	52.85	50.61
2009-10	9.08	36.14	14.23	67.56	65.78
2010-11	9.57	45.27	18.37	85.02	82.95
2011-12	8.99	56.11	20.58	22.11	102.94
2012-13	4.14	72.20	14.70	28.49	119.67

Source: On the basis of financial data obtained from Annual Reports of selected Development Banks for different years.

NB: EPS for IFCI limited has been negative from 2001-02 to 2005-06 because of recurring losses.

Table 5
Position of Net Profit to Revenue From Operations for Selected Development Banks

(%) percentages

Year	IFCI Limited	ICICI Bank	IDBI Bank	HDFC Bank	Axis Bank
2001-02	(—)39.34%	9.47%	5.91%	14.58%	8.40%
2002-03	(—)18.05%	9.62%	6.30%	15.52%	10.24%
2003-04	(—)29.14%	13.68%	5.65%	16.82%	13.01%
2004-05	(—)48.32%	15.63%	9.35%	17.77%	14.29%
2005-06	(—)16.17%	13.73%	8.42%	15.55%	13.40%
2006-07	43.91%	10.75%	8.54%	13.58%	11.83%
2007-08	51.99%	10.49%	7.58%	12.82%	12.16%
2008-09	46.86%	9.71%	6.59%	11.44%	13.21%
2009-10	40.49%	12.12%	5.87%	14.75%	16.13%
2010-11	28.40%	15.79%	7.97%	16.18%	17.12%
2011-12	23.28 %	15.75 %	7.97%	15.88 %	15.47 %
2012-13	16.34%	17.19%	6.65%	16.46%	15.35%

Source: Calculated on the basis of financial data obtained from Annual Reports of selected Development Banks for different years.

In Table No. 2 Profit before Tax for the selected Development Banks has been shown on comparative basis from 2001-02 to 2012-13. It is evident that ICICI Bank has highest profit before tax and IFCI Limited has least profit before tax during

recent times. IFCI Limited has shown reduction in PBT after 2011-12, but major development banks have shown improvement. Better PBT from the previous times is attributed to prudent management of financial management affairs of the financial institutions. But a lot more can be done by scientific management of profits, credit risk mitigation, improved scientific investment management, maintaining diversified portfolio of investments. Efforts to increase interest spread, better income recognition and asset classification and provisioning of substandard assets.

In the Table No. 3, Reserves and Surplus of selected Development Banks have been shown on comparative basis. It is seen that all the development financial institutions are managing huge reserves such as statutory reserves, amalgamation reserves, share translation reserves, revenue reserves, benevolent reserves and many other reserve accounts. Piling reserve accounts are indicative of better profitability and improved financial viability of the concerned Development Financial Institutions. More reserves show that a very large quantum of overall profits have been pooled back in to the operations after dividend disbursal, this has been possible to build huge reserve accounts because of more earnings retention ratio of the banks. It could be worthwhile to use saved funds for massive expansion in rural, semi urban and urban segments besides proliferating in to international business operations so as to improve revenue from operations and net improved profitability.

In Table No. 4 Earnings per Share of selected Development Banks has been shown. It is evident that during present

regimes earnings per share of major banks has been good. The better EPS has been because of good profitability of selected sampling units or development banks. Axis Bank has best Earnings per Share and IFCI Limited has least EPS during 2012-13.

In Table No. 5 Returns from revenue from operations has been shown which shows that during 2012-13, ICICI Bank has best returns on revenue from operations and IDBI Bank has least returns on revenue from operations. Good returns on revenue from operations have been because of prudent management of financial institutions during present times.

Cause of better Profitability

01. Improved and Customer centric financial services such as bancassurance, factoring, forfaiting and new money market instruments by selected development banks.
02. Penetration in all segments such as semi-urban, urban and rural segments of society.
03. Focus on credit monitoring and provisioning of nonperforming assets by some entities.
04. Better lending to reduce NPAs by asset reconstruction as well as income recognition and asset classification by few banking entities.
05. Better capital structure planning and foresight in relation to cost of capital.
06. Slight focus on diversification of investment in growth investment revenues such as stocks, commodity markets, real estate, bullion, government securities and others.
07. Scientific management of risks, such as credit risk, operational risk, market risk

- and economic risk etc by few sampling units.
08. Avoidance of stock investment during volatile market situations.
 09. Better cash flow management and prudence in management of cash flow by investing activity, operating activity and financing activity by few sampling units.
 10. Better customer satisfaction, improved services and focus on customer convenience.
 11. Focus on cost management by a few sampling units and emphasis on control in interest, employee & establishment expenses and operating expenses by few development banks.
 07. Better security analysis and maintaining more diversified portfolio of investments so as to reduce overall investment risks during volatile market situations.
 08. Assessment of country and sovereign risk exposures during international investments and loans.
 09. Credit monitoring and taking recourse of banking tribunals, LOK Adalats and other measures to recuperate substandard debts.
 10. Increasing economy of scope by bringing more number of financial services to withstand in the competition and drawing lessons from financially strong counterparts.
 11. Credit rationing and sanction of credit as per RBI regulations and loan sanction to credit worthy clients by providing loans on indemnities, guarantees and mortgaging the assets and focus on gold loan as gold is costly assets and it can be sold internationally and drawing lesson from subprime crisis.
 12. Strict control of micro finance roles and vigil over functioning of Self Help Groups.

Suggestions

The following suggestions are given to improve profitability further in the coming time horizons:

01. Providing account number of choice to the customers as has been done in the Indus Ind Bank during present times.
02. Better provisioning and income recognition and asset classification and recuperation of substandard debts by the process of debt securitization.
03. Door step banking to increase customer convenience and improve revenues.
04. Competition Commission of India should strictly watchdog mergers and acquisitions of banking sector economy so that all the development financial institutions can progress with similar pace.
05. Mergers of weaker economies with the stronger ones.
06. Control on default risk by collateralized based lending.

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